

Foreword

The price regulation conducted by economic regulators is a high-stakes process, with significant and lasting effects: prices are often set for a multi-year period and have wide, tangible impacts. Price regulation influences investment in infrastructure maintenance and upgrades, and can facilitate the transition to a low-carbon economy and society. Ultimately, price regulation affects the daily lives of citizens, impacting household bills and influencing the quality of services households receive. At its best, price regulation has the potential to position the regulated sector to contribute to long-term goals and policies, and remain resilient to future shocks.

This report, the result of a multi-year peer review, discusses the efforts of the economic regulator of the Scottish water sector (the Water Industry Commission of Scotland, WICS) to make the results of its price-setting process work better for the customers of today and tomorrow. The price-setting process (the Strategic Review of Charges for 2021-2027, or SRC21) launched in 2017. Involving close collaboration between WICS and sector stakeholders, it confronted issues relating to sustainable asset management, intergenerational equity and climate change. Understanding customer views became even more important in tackling these major and inherent regulatory challenges; better capturing and relaying customer views into decision making became a focus of the process.

The review finds that parties consider the price-setting process a success. It built stakeholder buy-in on major strategic issues, such as managing assets and meeting a net-zero greenhouse gas emissions objective in the sector. In addition, a new focus on collaboration, openness and trust has strengthened the overall regulatory system. The system has shown its resilience, shifting direction when faced with new challenges such as the COVID-19 crisis and the introduction of a net-zero goal for Scottish Water.

WICS and other stakeholders faced uncertainty head-on as they completed a different type of price review, and they are again contending with some uncertainty as they implement a modified regulatory framework. Defining milestones, demonstrating progress, and maintaining opportunity for constructive challenge will lay foundations for greater stability and predictability in the regulatory framework. In addition, parties should not lose sight of strategic vision and goals, which can provide a guiding beacon as parties navigate uncharted waters.

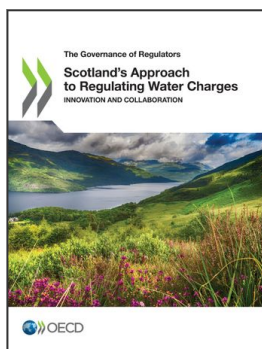
While certain aspects of the price review are unique to Scotland, many of the themes underlying SRC21 touch upon questions core to modern economic regulation:

- Regulatory frameworks focus on the regulatory period, sometimes at the expense of long-term needs, including for infrastructure. **How can economic regulators better incorporate consideration of long-term goals for sustainable asset management within the regulatory cycle?**
- As countries continue to increase their ambition to tackle the climate challenge, changes in approach will affect all parts of the public service. **How will economic regulators and the network sectors they regulate contribute to public efforts for climate adaptation and mitigation?**

- Many public bodies struggle to engage with a broad swathe of customers and communities; at the same time, many citizens report low levels of trust in public institutions. **Can regulators engage better with customers and communities to improve decision making and trust?**

In taking the first steps towards answering these questions, the price-setting process in the Scottish water sector gives valuable information about what it means to be an economic regulator, and what it looks like to regulate better in the face of contemporary challenges.

This report is part of the OECD work programme on the governance of regulators and regulatory policy, led by the OECD Network of Economic Regulators and the OECD Regulatory Policy Committee, with the support of the Regulatory Policy Division of the OECD Public Governance Directorate. The Directorate's mission is to help government at all levels design and implement strategic, evidence-based and innovative policies that support sustainable economic and social development. The report was presented to the OECD Network of Economic Regulators for comments and approval at its 17th meeting in November 2021 and declassified by written procedure by the Regulatory Policy Committee on 4 January 2022. It was prepared for publication by the Secretariat.



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